

01741

1994/08/00

EVENT SCENARIO

Event: Meeting with Vice Premier Zou Jiahua

Date: Tuesday, August 30, 1994

Time: 10:00-10:45 a.m.

Location: Diao Yu Tai State Guest House

Participants: Limited to 25, including:

Suggested USG Delegation:

First part:

Secretary Brown

Ambassador Roy

Interpreter Jim Brown

Stein

Lew

Garten

Kyle

SCO Hendryx

followed by:

Fitz-Pegado

Haley

Yang

Patton

Forest

Business Group:

Expert Edge

Tandem

Fluor

Sprint

Pitney Bowes

Arco

Solomon

TRW

DeLeuw Cather

Westinghouse

Objective: TBD

Overview: TBD. We will request initial 15 minute session for small senior delegation to be followed by larger delegation including full interagency and business delegation. During the last 15 minutes, the business delegation would enter and introduce themselves; perhaps one designee from the business delegation would follow with brief remarks.

Press Plan: TBD

Gift: TBD; generally delivered after the meeting through protocol officers.

MEETING WITH VICE PREMIER ZOU JIAHUA

Background

Overview

The first half of your meeting will be a small, private session. This will be your opportunity to promote American interests on several important project competitions with an influential player in China's industrial and military establishments. You might also raise our concerns regarding the market-restrictive elements in China's new industrial policy. Vice Premier Zou likely will raise a few contentious issues, including China's accession to the GATT, U.S. export controls, and resumption of the TDA and OPIC programs for China. During the last half of the meeting, you will be joined by interagency and business members of your delegation. Following a brief introduction, a previously selected business executive will review U.S. corporate interest in China's infrastructure modernization.

(FYI: Vice Premier Zou visited the United States in May at your invitation and Secretary O'Leary's joint invitation. While given the red carpet treatment by Arco, AT&T, Amoco, Exxon, General Atomics, Intel, and Motorola among others, the Vice Premier was extremely pleased with his Washington visit, thanks to Commerce assistance in arranging meetings with President Clinton, Secretary Bentsen, and then-Acting Secretary Talbott, and your own hospitality in hosting two welcome banquets.)

Background on Issues

Advocacy. China is arguably the world's largest market for infrastructure and industrial projects. U.S. firms are actively pursuing contracts to design, build and equip these facilities. In telecommunications, for instance, China is the world's fastest growing market and will likely account for 10-20 percent of the global equipment market by the year 2010. Estimates for China's expenditures on transportation systems between now and the year 2000 range from \$40-50 billion. In electric power, China will need to bring the equivalent of a 500 megawatt power plant on line every 7-10 days to meet its projected requirement for 300 gigawatts by the year 2000. At a constructed cost of about a billion dollars a gigawatt and inflating, the stakes are enormous. You recently wrote the Vice Premier on behalf of McDonnell Douglas (trunk aircraft program), Chrysler (South China minivan), and Entergy (Datong Power).

Taiwan Policy Review. The USG has been engaged for several months in a review of U.S. policy with respect to our unofficial relationship with Taiwan. Decisions, which are expected soon, will be within the present framework of our policy toward Taiwan and toward the People's Republic of China. This issue is likely to be raised by Jiang and other Chinese leaders and you may be queried regarding your future intentions to travel to Taiwan. State has indicated that an announcement regarding our Taiwan policy may come during your visit to Hong Kong.

GATT. Vice Premier Zou may express concern that the U.S. is not living up to its commitment in the 1992 Market Access Agreement to support China's GATT accession.

Although discussions on China's accession have been ongoing for eight years, the momentum was increased following the signing of this Agreement. Recently, China has increased its political efforts to secure agreement to conclude its GATT accession negotiations by the end of the year in order to become a founding member of the World Trade Organization. While this is not objectionable in principle, we support conclusion of China's accession negotiation only on terms that provide for bringing the Chinese economic and trade regimes into compliance with the GATT/WTO (see key bilateral issues paper for additional background).

New Industrial Policy. China recently unveiled a new industrial policy that seeks to accelerate development of "pillar industries" considered critical to sustaining China's rapid economic development. The policy concentrates resources on these "pillar industries" and subjugates local development efforts to central guidelines. Beijing's strategy for the automotive sector, the first of several industry-specific guidelines to be published, contains several market-restrictive elements. The document stipulates that automotive imports will be controlled and that automotive joint ventures with foreign producers must meet specific domestic content targets or face higher tariff rates on imported auto components. Information on how the new industrial policy affects other sectors has yet to be released.

JCCT. Vice Premier Zou has previously indicated his support for JCCT activities, in particular the work of the Business Development Working Group. You may wish to thank him for his support and review the status of proposed cooperation agreements.

MEETING WITH VICE PREMIER ZOU JIA HUA
Talking Points

INTRODUCTION

- IT IS MY PLEASURE TO MEET WITH YOU AGAIN.
- I AM PARTICULARLY HONORED TO LEAD THE FIRST CABINET-LEVEL VISIT TO CHINA FOLLOWING THE PRESIDENT'S DECISION ON CHINA'S MFN STATUS.
- AT NO OTHER TIME IN OUR BILATERAL RELATIONSHIP HAVE WE HAD A BETTER OPPORTUNITY TO ADVANCE OUR COMMERCIAL RELATIONSHIP. WE WOULD LIKE TO WORK WITH YOU TO FULLY REALIZE THE POTENTIAL OF OUR COMMERCIAL RELATIONSHIP.
- BOTH THE U.S. AND CHINA HAVE MUCH TO GAIN THROUGH A STRONGER ECONOMIC PARTNERSHIP.

ADVOCACY

- WITH ME ARE SENIOR OFFICIALS REPRESENTING IMPORTANT TRADE AGENCIES, AS WELL AS 25 INDUSTRY LEADERS REPRESENTING THE TELECOMMUNICATIONS, ENERGY, TRANSPORTATION, AND SERVICES SECTORS - AREAS WHERE U.S. TECHNOLOGY AND TECHNICAL EXPERTISE EXCELS AND CHINA'S DEVELOPMENT NEEDS ARE GREATEST. YOU WILL MEET THEM SHORTLY.
- THESE AND OTHER FIRMS ARE EAGER TO PARTICIPATE IN CHINA'S INFRASTRUCTURE DEVELOPMENT; MANY ARE BIDDING ON KEY PROJECTS WHICH ARE LIKELY TO BE DECIDED IN THE NEAR FUTURE.
- WE HAVE DISCUSSED FAVORABLE CONSIDERATION OF U.S. BIDDERS IN SEVERAL PIVOTAL PROJECTS OVER THE PAST FEW MONTHS (NON-PAPER ATTACHED). GIVEN THE VERY AGGRESSIVE POSTURE OF THE U.S. EXPORT-IMPORT BANK, I WOULD HOPE U.S. COMPANIES WOULD BE WELL POSITIONED TO WIN THESE COMPETITIONS.

GATT

- THE UNITED STATES IS WORKING CLOSELY WITH CHINA AND OTHER COUNTRIES ON ACCESSION TO THE GATT/WTO.
- WE ASK THAT CHINA COMPLY WITH THE RULES OF THE GATT/WTO BY BRINGING ITS TRADE REGIME INTO LINE WITH AGREED INTERNATIONAL NORMS, AS PART OF ITS GATT/WTO MEMBERSHIP.

- CHINA HAS ASKED US TO CONSIDER "SPECIAL" PROVISIONS TO RECOGNIZE THE EXCITING TRANSFORMATION THAT IS UNDERWAY IN ITS TRADE REGIME. WE ARE PREPARED TO BE CREATIVE AND FLEXIBLE, BUT ADHERENCE TO BASIC GATT RULES IS A MUST FOR ANY APPLICANT.
- CHINA ALSO WANTS TO TAKE ADVANTAGE OF PROVISIONS IN GATT/WTO RULES FOR LDCs. THESE PROVISIONS ARE IN THE GATT/WTO TO HELP COUNTRIES THAT NEED AN EXTRA ADVANTAGE TO COMPETE IN GLOBAL MARKETS. CHINA'S UNIQUE SITUATION DOES NOT REALLY FIT THESE CIRCUMSTANCES.

CHINA'S NEW INDUSTRIAL POLICY

- ALTHOUGH ONLY LIMITED INFORMATION IS AVAILABLE, WHAT WE HAVE SEEN SO FAR OF CHINA'S RECENTLY ANNOUNCED INDUSTRIAL POLICIES IS OF GREAT CONCERN. SEVERAL ASPECTS—SUCH AS LOCAL CONTENT REQUIREMENTS FOR THE AUTO INDUSTRY—ARE CLEARLY NOT IN LINE WITH GATT/WTO PRINCIPLES.
- WE ARE INTERESTED IN LEARNING MUCH MORE ABOUT CHINA'S INDUSTRIAL POLICY PLANS.

TAIWAN POLICY REVIEW (IF RAISED)

- DECISIONS PURSUANT TO A REVIEW OF UNITED STATES POLICY TOWARD TAIWAN ARE EXPECTED SOON.
- IT IS IMPORTANT TO NOTE THAT THE RELATIONSHIP WITH TAIWAN WILL CONTINUE TO BE UNOFFICIAL. ANY ADJUSTMENTS WILL BE WITHIN THE FRAMEWORK CONSTITUTED BY THE TAIWAN RELATIONS ACT AND OUR THREE JOINT COMMUNIQUES WITH THE PEOPLE'S REPUBLIC OF CHINA.
- I ASSURE YOU THAT ANY CHANGES WILL BE CONSISTENT WITH PAST POLICY, AND WE WILL CONTINUE TO MAINTAIN A ONE-CHINA POLICY.
- WE THINK THAT OUR POLICY TOWARD TAIWAN, WHICH DATES BACK FIFTEEN YEARS TO ESTABLISHMENT OF UNOFFICIAL RELATIONS, HAS BEEN SUCCESSFUL; IT HAS PERMITTED IMPRESSIVE GROWTH OF ECONOMIC, COMMERCIAL, CULTURAL AND OTHER TIES WITH TAIWAN.
- (IF PRESSED) I HAVE NO INTENTION OF TRAVELING TO TAIWAN.

FINANCING ISSUES (IF RAISED)

- TDA AND OPIC. WE AGREE THAT BOTH TDA AND OPIC ARE IMPORTANT TO FURTHERING COMMERCIAL COOPERATION BETWEEN OUR TWO COUNTRIES. THE PRESIDENT'S RECENT DECISION ON CHINA'S MFN STATUS CALLED FOR THE CONTINUATION OF THE SUSPENSION OF BOTH OF THESE PROGRAMS IN CHINA.

JCCT

- THE SIGNING OF A FRAMEWORK AGREEMENT FOR BILATERAL COOPERATION BETWEEN THE U.S. DEPARTMENT OF COMMERCE AND MOFTEC WILL FACILITATE OUR COOPERATION IN A NUMBER OF SECTORS INCLUDING CHEMICALS, ELECTRIC POWER, AVIATION, MACHINERY, HEALTH CARE, AND ENVIRONMENTAL TECHNOLOGIES. I APPRECIATE YOUR SUPPORT IN THIS EFFORT.